

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

In the Matter of the Application of SOUTHERN CALIFORNIA EDISON COMPANY U-338, for an Order increasing the currently authorized amount of variable interest rate debt instruments, or guarantees of the debt securities of another, to finance undercollections in its Regulatory Balancing Accounts, from \$700,000,000 to an aggregate principal amount not to exceed \$1,200,000,000.

Application 00-07-048  
(Filed July 11, 2000)

**ADMINISTRATIVE LAW JUDGES' RULING  
REQUIRING SOUTHERN CALIFORNIA EDISON COMPANY  
TO SUBMIT ADDITIONAL INFORMATION**

This ruling requires Southern California Edison Company (Edison) to file an amendment to its petition to modify Decision (D.) 01-01-021 and D.00-10-040. The purpose of the amendment is to update the record in this proceeding to determine whether, and to what extent, Edison has a need to issue the amount and types of debt authorized by D.01-01-021 and D.00-10-040. Failure by Edison to submit any of the information required by this ruling may be deemed good cause to dismiss the petition.

**I. Background**

Beginning in June 2000, the price for wholesale electricity soared to levels far above the rates that Edison could charge its retail customers under the rate

freeze established by Pub. Util. Code § 368(a)<sup>1</sup> and D.96-12-077. The excess of Edison's cost for wholesale power over its revenues was recorded initially as an undercollection in the Transition Revenue Account (TRA). The Commission later determined that Edison should transfer its TRA undercollection to its Transition Cost Balancing Account (TCBA) on a monthly basis.<sup>2</sup>

In D.00-10-040, the Commission granted Edison's application for authority to issue \$1.3 billion of additional debt to finance its TRA undercollection.<sup>3</sup> In D.01-01-021, the Commission granted Edison's petition to modify D.00-10-040 to provide Edison with authority to (1) issue \$3.5 billion of additional debt to finance its TRA undercollection,<sup>4</sup> (2) issue debt secured by Edison's real assets and/or accounts receivable, and (3) issue variable-rate debt and debt issues in excess of \$200 million on a negotiated basis instead of through competitive bids.

As the electricity crisis wore on, Edison's unpaid procurement-related obligations reached \$6.4 billion. Edison's ability to procure electric power collapsed when creditors refused to lend additional amounts to Edison. As a result, the State of California was forced to procure power for Edison's customers. Meanwhile, Edison sued the Commission in federal court, alleging that the Commission had refused to allow Edison to recover the full amount of its costs in retail rates as required by federal law.

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<sup>1</sup> All statutory references are to the Public Utilities Code.

<sup>2</sup> D.01-03-082, Ordering Paragraph 7. The Commission's order was effective on a retroactive basis to January 1, 1998.

<sup>3</sup> D.00-10-040 authorized Edison to issue the same types of debt that Edison was authorized to issue in D.89-08-023, D.87-09-050, and D.91269.

<sup>4</sup> D.01-01-021 and D.00-10-040 together provide Edison with authority to issue \$4.8 billion of addition debt (i.e., \$3.5 billion + \$1.3 billion).

A confluence of circumstances eventually caused the electricity crisis to subside. In particular, the Commission raised retail electric rates, and the price for wholesale power dropped due to falling natural gas prices, falling demand caused by unprecedented conservation, and the imposition of wholesale price mitigation measures by the Federal Energy Regulatory Commission. As a result, Edison's retail rates began to produce revenues in excess of Edison's costs, thereby creating an opportunity to pay off Edison's procurement-related obligations.

On October 2, 2001, Edison and the Commission entered into an agreement to settle Edison's lawsuit against the Commission.<sup>5</sup> Among other things, the Settlement requires the Commission to establish the Procurement-Related Obligations Account (PROACT) to replace the TRA and TCBA.<sup>6</sup> Once the PROACT is established, its opening balance will equal Edison's procurement-related obligations as of August 31, 2001, including any procurement-related obligations in the TRA and TCBA, less \$300 million and Edison's cash on hand as of August 31, 2001.<sup>7</sup> Edison's procurement-related costs and revenues will thereafter be booked to the PROACT. The Settlement anticipates that the balance in the PROACT will reach zero by December 31, 2003.

On December 17, 2001, Edison filed a petition to modify D.01-01-021 and D.00-10-040. In general, Edison requests permission in its petition to use the

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<sup>5</sup> The Settlement Agreement was approved by the U.S. District Court on October 5, 2001.

<sup>6</sup> Edison filed Advice Letter 1586-E on November 14, 2001, to implement the PROACT beginning on September 1, 2001. The advice letter is currently pending before the Commission.

<sup>7</sup> As required by the Settlement, the Commission's Energy Division has determined that the opening balance for the PROACT should equal \$3.578 billion.

*Footnote continued on next page*

\$4.8 billion of debt authorized by D.01-01-021 and D.00-10-040 to finance undercollections in the PROACT, TRA, and TCBA.

## **II. Discussion**

As described above, there has been a sea change in circumstances since the issuance of D.01-01-021 and D.00-10-040. Consequently, in order to determine whether to grant Edison's petition to modify these decisions, it is necessary to assess whether, and to what extent, Edison still has a need to issue the types and amount of debt authorized by these decisions. Therefore, to provide the Commission with an adequate record to decide Edison's petition, this ruling requires Edison to file and serve an amendment to its petition that contains the information set forth below. Failure by Edison to provide any of the information may be deemed good cause to dismiss its petition without prejudice.

1. Please provide the amount and types of outstanding debt issued pursuant to D.01-01-021 and D.00-10-040.
  2. Edison has authority under D.01-01-021 and D.00-10-040 to issue \$4.8 billion of additional debt. Does Edison still need authority to issue \$4.8 billion of additional debt? If so, please explain why this is so given that the beginning balance for the PROACT will probably equal \$3.578 billion, and given the expectation in the Settlement that the PROACT balance will decline to zero by December 31, 2003. If not, how much additional debt does Edison need to issue? In responding to Question 2, Edison should provide the following information:
    - a. A thorough explanation to support whatever amount of debt authority that is sought by Edison, particularly any amount of debt in excess of the PROACT beginning balance.
    - b. A detailed cash flow projection that supports Edison's response to Question 2.
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- c. Whether Edison intends to use the debt authorized by D.01-01-021 and D.00-10-040 for any purpose other than financing the beginning balance in the PROACT, and if so, what these other purposes are and the amount of debt required for each other purpose.
3. The opening balance in the PROACT will probably consist of the amounts identified in the following table:

<b>Item</b>	<b>Amount (\$000)</b>	<b>Due Date</b>
Net QFs	\$1,218,599	
PX/ISO	\$ 924,355	
ESPs	\$ 235,950	
CDWR Imbalance	\$ 382,936	
Other	\$ 30,331	
<b>Subtotal</b>	\$2,792,171	
Bank Loan: 364-Day Line	\$ 208,194	10/19/01
Bank Loan: Bilateral Lines	\$ 415,111	10/19/01
Bank Loan: 5-Year Line	\$1,090,099	10/19/01
Extendable Commercial Notes	\$ 10,507	10/22/01
Floating-Rate Notes	\$ 312,880	05/01/02
Variable-Rate Notes	\$1,043,030	11/03/03
Defaulted Commercial Paper	\$ 552,182	Now
<b>Subtotal</b>	\$3,632,003	
<b>Total Obligations</b>	\$6,424,174	
Less: Cash and Cash Equivalents on Hand as of 8/31/01	\$2,546,541	
Less: Settlement Deduction	\$ 300,000	
<b>Subtotal</b>	\$2,846,540	

<b>PROACT Beginning Balance</b>	\$3,577,634	
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Please provide the following information regarding the above table:

- a. The current amount for each item in the table. If the amount has changed, please provide a detailed explanation for the change.
- b. The current status of each obligation listed in the table. For example, has any obligation been retired, extended, or refinanced?
- c. For each item of debt listed in the table, the Commission decision that authorized the debt (e.g., D.00-10-040). If an item of debt has been refinanced, please provide the Commission decision that authorized the debt used in the refinancing.
- d. Assuming that some of the debt shown in the above table was not issued pursuant to D.00-10-040 or D.01-01-021, can Edison's authority to issue debt pursuant to these decisions be reduced by the amount of debt in the above table that was not issued pursuant to these decisions? If not, why not?
- e. The information in the above table suggests that the maximum amount of new debt that is needed to finance the PROACT undercollection is approximately \$2.54 billion (i.e., the beginning balance of \$3.58 billion less variable-rate notes in the amount of \$1.04 billion due on November 3, 2003). If not already provided in response to Question 2 above, please state whether Edison needs to issue more than \$2.54 billion of additional debt to finance its PROACT undercollection, and if so, please provide a detailed explanation as to why.
- f. For each obligation listed in the table, please state how Edison plans to dispose of the obligation.
- g. Please provide a detailed description and timeline of Edison's plans for the cash and cash equivalents on hand as of August 31, 2001 (collectively, "cash"). Does Edison plan to use all of the cash to pay off the obligations listed in the table? If so, which obligations? If not, how much of the cash will be used to pay off the obligations listed in the table, and what will the rest of the cash be used for?

4. Edison has authority under D.01-01-021 to issue debt secured by its real property and/or accounts receivable. Does Edison still seek authority to issue secured debt? If so, please provide a thorough explanation for why Edison needs such authority, and why it is in the public interest to grant such authority.
5. D.01-01-021 grants Edison an exemption from the Commission's competitive bidding rules for variable-rate debt and debt issues in excess of \$200 million. Does Edison still need the exemption? If so, please provide a thorough explanation for why Edison needs the exemption, and why it is in the public interest to grant the exemption.
6. Edison states in its petition that it should have authority to use the debt authorized by D.01-01-021 and D.00-10-040 to finance undercollections in the PROACT, TRA, and TCBA. Assuming the Commission implements the PROACT as set forth in Edison's Advice Letter 1586-E, would Edison still have a need to finance undercollections in the TRA and TCBA? If so, please provide a detailed explanation as to why.
7. Please provide any other information that Edison believes is relevant to the Commission's consideration of Edison's petition to modify D.01-01-021 and D.00-10-040.

Edison shall file and serve the amendment to its petition required by this ruling no later January 18, 2002. Edison shall also provide an electronic copy of the amendment to the assigned Administrative Law Judge (ALJ) via e-mail (tim@cpuc.ca.gov) in Microsoft Word format. Responses to the amendment shall be filed and served no later than five business days after notice of the amendment appears in the Commission's Daily Calendar.

All communications with the assigned ALJ regarding this ruling or any other matter shall be conducted through paper mail or electronic mail (tim@cpuc.ca.gov) and not by telephone.

**IT IS RULED** that:

1. Southern California Edison Company (Edison) shall file and serve an amendment to its petition to modify Decision (D.) 01-01-021 and D.00-10-040 that contains the information specified in the body of this ruling. Edison shall file the amendment no later than January 18, 2002.
2. Responses to the amendment shall be filed and served no later than five business days after notice of the amendment appears in the Commission's Daily Calendar.
3. Edison shall provide an electronic copy of its amendment to the assigned Administrative Law Judge via e-mail (tim@cpuc.ca.gov) in Microsoft Word format.
4. Failure by Edison to provide any of the information required by this ruling may be deemed good cause to dismiss its petition without prejudice.
5. All communications with the assigned Administrative Law Judge regarding this ruling or any other matter shall be conducted through paper mail or electronic mail (tim@cpuc.ca.gov) and not by telephone.

Dated December 28, 2001, at San Francisco, California.

/s/ TIMOTHY KENNEY

Timothy Kenney  
Administrative Law Judge



**CERTIFICATE OF SERVICE**

I certify that I have by mail this day served a true copy of the original attached Administrative Law Judge's Ruling Requiring Southern California Edison Company to Submit Additional Information on all parties of record in this proceeding or their attorneys of record.

Dated December 28, 2001, at San Francisco, California.

/s/ TERESITA C. GALLARDO

Teresita C. Gallardo

**N O T I C E**

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at (415) 703-2074 or TTY# 1-866-836-7825 or (415) 703-5282 at least three working days in advance of the event.

A.00-07-048 TIM/tcg